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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND  
THE COUNCIL**

**on the implementation of Regulation (EC) No 716/2007 of the European Parliament and  
of the Council of 20 June 2007 on Community statistics on the structure and activity of  
foreign affiliates**

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### 1. INTRODUCTION

The main objective of Regulation (EC) No 716/2007 of the European Parliament and of the Council on Community statistics concerning the structure and activity of foreign affiliates (FATS Regulation) is to establish a common framework and statistical quality standards for the systematic production of comparable statistics on foreign affiliates.

Article 12 of Regulation (EC) No 716/2007 states that the Commission shall submit a report to the European Parliament and the Council on the implementation of the Regulation by 19 July 2012. The report is to be prepared by Eurostat and shall, in particular:

- (1) assess the quality of the statistics produced;
- (2) assess the benefits accruing to the Community, the Member States, the providers and users of statistical information of the statistics produced in relation to the costs;
- (3) assess the progress of the pilot studies and their implementation;
- (4) identify areas for potential improvement and amendments considered necessary in the light of the results obtained and the costs involved.

Article 2 of the FATS Regulation provides definitions of the statistics on foreign affiliates where *Inward statistics on foreign affiliates (inward FATS)* shall mean statistics describing the activity of foreign affiliates resident in the compiling economy<sup>1</sup> and *Outward statistics on foreign affiliates (outward FATS)* shall mean statistics describing the activity of foreign affiliates abroad controlled by the compiling economy<sup>2</sup>.

In accordance with Article 7 of Regulation (EC) No 716/2007, which contains a requirement to ‘publish a recommendations manual which contains the relevant definitions and supplementary guidance concerning the Community statistics produced pursuant to this Regulation’, the first edition of the Foreign Affiliates Statistics Recommendations Manual (FATS Recommendations Manual) was published in 2007 and has since then been revised twice by Eurostat, in cooperation with Member States’ experts<sup>3</sup>. It aims at laying down the methodology and guidelines for the collection and compilation of inward and outward foreign affiliates statistics in the European Union (EU).

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<sup>1</sup> Article 2 (f) of Regulation (EC) No 716/2007.

<sup>2</sup> Article 2 (g) of Regulation (EC) No 716/2007.

<sup>3</sup> To be found here: [http://epp.eurostat.ec.europa.eu/cache/ITY\\_OFFPUB/KS-AR-09-014/EN/KS-AR-09-014-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-AR-09-014/EN/KS-AR-09-014-EN.PDF).

The definition of ‘foreign affiliate’ in Article 2 of Regulation (EC) No 716/2007 uses three terms, namely: control, institutional unit, and residency. As these terms are of a very general nature, they needed to be further defined to ensure harmonised data compilation. The FATS Recommendations Manual contains a more specific definition of these terms and explains the ‘ultimate controlling institutional unit’ (UCI) concept to be applied by the National Statistical Authorities when compiling the FATS statistics:

*Ultimate controlling institutional unit of a foreign affiliate* shall mean the institutional unit, moving up a foreign affiliate’s chain of control, which is not controlled by another institutional unit.

EU Member States have to provide Eurostat with the information required under Regulation (EC) No 716/2007, its implementing and amending Commission Regulations and the guidelines of the FATS Recommendations Manual.

This report examines the most important aspects of the implementation of Regulation (EC) No 716/2007, as reported by Member States, and the measures taken by the Commission to ensure high-quality European statistics on the activities of foreign affiliates.

## **2. IMPLEMENTING MEASURES**

The FATS Regulation lays down the common framework for compilation of FATS statistics. However, in order to produce comparable data harmonised between Member States, as well as to reduce the risk of errors in data transmission, it was necessary to specify the technical format of data and the transmission procedure to be followed. In addition, derogations had to be granted to some Member States to allow them to perform the necessary adaptations to their national statistical systems. Following adoption of the Regulation on the revised statistical classification of economic activities NACE Revision 2<sup>4</sup>, it was necessary to also adapt the activity breakdown levels for FATS.

To capture all those changes, the following amending Regulations have been adopted:

- (5) Commission Regulation (EC) No 364/2008 of 23 April 2008 implementing Regulation (EC) No 716/2007 of the European Parliament and of the Council, as regards the technical format for the transmission of foreign affiliates statistics and the derogations to be granted to Member States;
- (6) Commission Regulation (EC) No 747/2008 of 30 July 2008 amending Regulation (EC) No 716/2007 of the European Parliament and of the Council on Community statistics on the structure and activity of foreign affiliates, as regards the definitions of characteristics and the implementation of NACE Rev. 2 ;
- (1) Commission Regulation (EC) No 834/2009 of 11 September 2009 implementing Regulation (EC) No 716/2007 of the European Parliament and of the Council on Community statistics on the structure and activity of foreign affiliates, as regards the quality reports.

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<sup>4</sup> Regulation (EC) No 1893/2006 of the European Parliament and of the Council of 20 December 2006.

Eurostat has also issued the aforementioned Recommendations Manual (undergoing revision at the time of writing this report), containing precise definitions and instructions to Member States on how to compile the data.

### **3. MAIN DATA SETS CONCERNED**

Foreign affiliates statistics (FATS) are essential for an adequate assessment of the impact of foreign-controlled enterprises on the European Union economy. FATS also facilitate the monitoring of the effectiveness of the internal market and the gradual integration of economies in the context of globalisation. Annex I, Section 2 of Regulation (EC) 716/2007 lays down the number of characteristics to be compiled:

#### Inward FATS:

The 11 main characteristics (variables) covered by the inward FATS statistics are:

- ‘Business-demography’ variables (e.g. Number of enterprises);
- ‘Output-related’ variables (e.g. Turnover, Value added at factor costs);
- ‘Input-related’ variables: labour input (e.g. Number of persons employed, Personnel costs); goods and services input (e.g. Total purchases of goods and services)

#### Outward FATS:

Data are to be provided for 3 mandatory and 8 voluntary variables. The mandatory variables are:

- ‘Business-demography’ variable - Number of enterprises;
- ‘Output-related’ variable - Turnover;
- ‘Input-related’ variable: labour input - Number of persons employed;

The list of voluntary variables is set out in detail in the FATS Recommendations Manual.

Variables should be provided broken down by the country in which the foreign affiliate is located and the activity it undertakes, as specified in Annex III of the FATS Regulation.

### **4. QUALITY OF THE STATISTICS PRODUCED**

Member States are required to supply the Commission with an annual quality report to be used to assess the quality of the data transmitted to Eurostat<sup>5</sup>.

Eurostat and National Statistical Authorities work closely together in order to ensure the timeliness, accuracy, reliability and coherence of the FATS statistics. Furthermore, the FATS Recommendations Manual, which is the reference document for technical details, ensures that the comparability of data is further enhanced and reflects recent methodological developments.

The following analysis refers to the results of the latest available quality reports on FATS data for the reference year 2009, for which the full data set should be available for the first time,

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<sup>5</sup> Article 6(2) of Regulation (EC) No 716/2007

covering all 27 Member States. It can be deduced that not all Member States are in full compliance with the legislation concerning FATS:

Quality aspects	Inward FATS	Outward FATS
Timeliness	21 out of 27	23 out of 27
Coverage	81 %	94 %
Accuracy	Acceptable	Acceptable
Coherence	25 out of 27 - 2 Member States produce inward FATS independently of SBS (see chapter 4.7.)	20 out of 27 - matching classification codes for FDI (see chapter 4.7.) and FATS to be introduced by 7 Member States
Comparability across countries	27 out of 27	26 out of 27 (UCI concept is not applied by Greece at the time of writing this report)

#### 4.1. Timeliness

The deadlines are set out in Section 5 of Annexes I and II of Regulation (EC) No 716/2007 and further specified in the FATS Recommendations Manual 2009. The deadlines for sending inward FATS and outward FATS data to Eurostat are expressed in months after the end of the reference year:

t+20

Compliance with the reporting deadline for the reference year 2009 can be summarised as follows:

- 21 countries delivered their inward FATS data sets on time;
- 23 countries delivered their outward FATS data sets on time;

Derogations from the provisions of the FATS Regulation were granted to some Member States to allow them to make the necessary adaptations to their national statistical systems. This relates in particular to the development of new statistical registers and the methods of data collection. For outward FATS, a complete derogation was granted to France, Luxembourg, Spain, the United Kingdom and Norway for the reference years 2007 and 2008. Moreover, Luxembourg was granted a complete derogation for the reference years 2007 and 2008 as regards the provision of inward FATS data.

In summary, compliance with the reporting deadline for 2009 was satisfactory and punctuality has improved compared to data submission for the reference year 2007, when for inward FATS only 18 countries, and for outward FATS only 16 countries delivered data by the deadline set. A compliance-monitoring routine has been established and Eurostat is working together with those Member States which do not yet fully comply with the deadlines.

## 4.2. Accessibility of the released FATS data

All FATS data, as well as comprehensive, targeted and detailed explanations of methodological issues (metadata), are available free of charge on Eurostat's website under the theme 'Industry, trade and services'<sup>6</sup> or via the search function. FATS statistics are also published at national level, in the National Statistical Authorities' spheres of responsibility, which further increases the accessibility of data.

The database 'FATS — foreign affiliates statistics' provides detailed information on statistical processes, legal questions, confidentiality rules and descriptions of national data collection methods<sup>7</sup>. Concise explanations of statistical concepts are published in a new wiki-style online dictionary and as answers to 'Frequently asked questions'. EU aggregates for definitive 2009 inward and outward FATS data will be calculated on the basis of the available data provided by Member States and, in the case of missing data, on the basis of estimates. Non-confidential EU aggregates will be released on Eurostat's website in 2012 and can be downloaded free of charge.

## 4.3. Coverage of data sent to Eurostat

Data coverage is measured as the number of data values provided as a proportion of the total number of values requested.

The delivery of complete data sets is crucial for the production of EU aggregates. Missing data limit the interpretation and the informative value of FATS statistics.

In the first reporting round for the reference year 2007, 3 EU Member States were able to provide complete data sets on inward FATS, and 13 Member States on outward FATS.

For the reference year 2009, the completeness of data improved considerably. For outward FATS, the share of missing values fell from 21 % to 6 % as missing data were reported by only 5 countries, whereas 22 Member States provided complete data sets. For inward FATS, the overall share of missing data declined from 47 % in 2007 to 19% in 2009 as 9 EU Member States provided 100 % of the requested data.

**Table 2: Coverage and data confidentiality, inward and outward FATS, 2009, in %**

Countries <sup>8</sup>	Total cells sent as % of cells required by FATS Regulation		Proportion of cells sent that are confidential (%)	
	inward FATS	outward FATS	inward FATS	outward FATS
Large countries	85	96	26	14
Medium countries	78	87	14	21
Small countries	84	100	18	20
<b>ALL</b>	<b>81</b>	<b>94</b>	<b>17</b>	<b>20</b>

<sup>6</sup> <http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home> .

<sup>7</sup> <http://circa.europa.eu/Members/irc/dsis/foreignaffiliatesstatistics/library?l=/public&vm=detail&d&sb=Title> .

<sup>8</sup> CETO flags is grouping of countries according to Regulation (EC) No 295/2008 of the European Parliament and of the Council of 11 March 2008 concerning structural business statistics:

Large countries: DE, FR, IT, UK

Medium countries: BE, DK, ES, GR, IE, NL, AT, PL, PT, FI, SE, NO

Small countries: BG, CZ, EE, CY, LV, LT, LU HU, MT, RO, SI, SK

#### 4.4. Confidentiality

There is a link between the percentage of confidential data and the relevance of the statistics. If a high percentage of the data is confidential, the statistics will not sufficiently meet users' needs. The extent to which confidentiality has reduced data availability for inward and outward FATS is presented in Table 2 above. The overall confidentiality rates are 17% and 20%, respectively.

#### 4.5. Relevance to users

The FATS data are increasingly used for measuring globalisation aspects and effects.

An indicator of the relevance of the FATS data to Eurostat's users is the number of data or publications downloaded from Eurostat's website up to 2011.

The figures presented in the table below represent the data accessed by users available on the Eurostat's website section on publications during the years 2010 and 2011:

Table 3: Number of accessed data, 2010 and 2011

<b>Free downloaded datasets, in total</b>	<b>8 128</b>
<b>Year 2010</b>	<b>3 616</b>
<b>Year 2011</b>	<b>4 512</b>

For 2011, an increase of almost 25% can be observed, bringing the number of downloads to 4512. This was expected as it is a new domain and the interest shown by users is steadily increasing.

The main users of FATS data are the Commission (Directorate-General for Trade, Directorate-General Internal Market and Services, Directorate-General Enterprise and Industry), international organisations (OECD, WTO, UN), ministries, chambers of commerce, trade unions, journalists, researchers, embassies, federations, business-promotion entities, etc.

#### 4.6. Accuracy

Accuracy is checked by identifying any deviations from the FATS Regulation and the FATS Recommendations Manual, as well as by undertaking regular quality-validation checks.

##### 4.6.1. Misclassification

Misclassification refers to allocating statistical units to the wrong class in a given classification, for instance classifying a business under trade instead of industry.

The main issue identified under this heading is the correct coding of the economic activity of affiliates. This information may be missing, ambiguous or wrong and cross-checking with business registers may not be possible. Plausibility checks are implemented to detect wrong codes.

For outward FATS, under-coverage of reporting units is another issue to be addressed. The primary reason for under-coverage comprises the size thresholds applied by some Member States. Another reason is the legal or real impossibility of surveying natural persons. Finally, the time lag between the creation of a new enterprise group and its appearance in the available registers and other databases may cause exclusion of this reporting unit from the population frame.

#### 4.6.2. *Non-response*

Unit non-response occurs when not all the reporting units in the sample participate in the survey.

Almost all Member States underlined that large enterprises, which contribute to a large extent to the final results, are in general much better motivated to respond to the survey than smaller enterprises. Therefore, even if the non-weighted non-response rate may in some cases be high, the actual missing part in the statistics is far less significant.

Several methods of reducing non-response were applied. Most of the countries used written and/or telephone reminders to non-respondents. Legal measures (e.g. fines) are available to those data compilers that have a legal basis for the survey and where completing the questionnaire is compulsory. However, such measures are considered only the last resort, since good contacts to businesses are important for all future data requests, including for other statistical domains.

### **4.7. Coherence and comparability**

#### 4.7.1. *Coherence*

Coherence of two or more statistical outputs refers to the degree to which the statistical processes by which they were generated used the same concepts - classifications, definitions, target populations, and harmonised methods<sup>9</sup>.

The target population is the conceptual population of units at which the survey is aimed and for which statistics should be produced. In the context of outward FATS, there is a difference between the target population of statistical units (on which data are collected) and the target population of reporting units (from which data are collected). For inward FATS, the population of statistical units is in most cases equal to the population of reporting units.

Structural Business Statistics (SBS), Foreign Direct Investment (FDI) and Research and Development (R&D) statistics measure elements of the same phenomenon as FATS — the internationalisation of businesses — and are closely-related statistical domains. This similarity in substance is also expressed in compilation practice and data are often compiled using the same survey. Therefore, it is important that results do not diverge too much from each other.

#### Inward FATS

As the definitions for economic characteristics and activity breakdown for inward FATS population are consistent with the Structural Business Statistics (SBS) population (Regulation No 716/2007, Annex I, Section 2), the data should also be consistent.

Inward FATS, as a subset of SBS statistics, should use all data available in SBS. However, 2 countries produce inward FATS independently of SBS and populations cannot be compared. In 3 countries, the inward FATS population is smaller than the relevant part of the SBS survey population, and 6 countries confirmed that the inward FATS population has been extended beyond the relevant part of the SBS survey population. The fact that the populations are not

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<sup>9</sup> p. 42 of the FATS Recommendation Manual, version 2009.



fully consistent does not necessarily mean that the data are not coherent. On the contrary, adjusting the SBS population to serve the purposes of FATS should improve the data quality.

### Outward FATS

For outward FATS, in most cases the yearly Foreign Direct Investments (FDI) stock survey or a specific FATS survey is used as a starting point. Data is collected by surveying resident enterprises. The data collection is usually based on census surveys. Most of the countries confirmed that they had used the same non-resident activity codes for both foreign direct investment stocks abroad and for outward FATS; 7 countries replied that they had applied different codes.

#### *4.7.2. Comparability*

##### *a) Comparability across countries*

The thorough data analysis by Eurostat ensures a continuous improvement of comparability across countries. With common definitions and classifications in place, the comparability of data across countries is fairly high.

Differences between countries become more and more explainable. Some problems remain since one country has not used the UCI concept. This does, however, not significantly affect the quality of the total aggregates. From the reference year 2010 onwards, the UCI concept will have been applied in all EU Member States.

##### *b) Comparability over time*

Inconsistencies over time occur when data collected for a specific reference period are not fully compatible with the data of the following periods due to a number of peculiarities in a certain time period. In such cases one speaks of a break in the time series.

### Inward FATS

For the reference years up until 2006, data are available only for countries that sent them on a voluntary basis. Starting with the reference year 2007, data collection has been mandatory. Furthermore, some countries started to apply the agreed common methodology, including the UCI concept. This important change in methodology resulted in a structural break in data for all countries.

Another structural break came with the data for 2008, the first reference year for which data was compiled according to the revised activity classification (Regulation (EC) No 1893/2006 that establishes the statistical classification of economic activities NACE Revision 2). As a consequence, the 2008 inward FATS data cannot be directly compared with earlier reference years.

For this reason, a separate table for Inward FATS was created in Eurostat's online database as from the reference year 2008. Direct comparison is possible only on the total activity level and for NACE sections and divisions where there were no changes.

### Outward FATS

In outward FATS, some countries voluntarily compiled data series starting from 2004. For the reference year 2007, outward FATS data compilation and transmission became obligatory. The implementation of the FATS Regulation resulted in a structural break in the available time series, mainly due to the introduction of an important methodological change — the UCI concept. This is also the main explanation why data before 2007 and the data from 2007 onwards cannot be compared for most of the countries. In order to reflect this fact, outward FATS data in Eurostat's online database are split into separate tables containing data before and after 2007.

As regards the implementation of Regulation (EC) No 1893/2006 establishing the statistical classification of economic activities NACE Revision 2, Member States have to apply the new activity classification from the reference year 2010 for outward FATS data. This will result in another structural break from 2010 onwards.

In summary, the quality of data submitted by Member States shows widespread compliance and constant improvement over previous years. The methodological framework established by the Regulation is constantly being developed through mutual consultations and dedicated, thematically-focused meetings. Eurostat also works together with other international organisations in order to increase the comparability of data and methods beyond the European Union.

## **5. COSTS AND BURDEN OF FOREIGN AFFILIATES STATISTICS**

Most Member States do not measure the burden in quantitative terms and can therefore provide only qualitative assessments. Therefore, any estimation of the costs involved in the collection and dissemination of foreign affiliates statistics is not easily quantifiable. There is a wide range of FATS data sources that are also used for the production of other statistics, or linked to reporting by financial institutions and enterprises to regulatory authorities. Hence, it is difficult to separate the specific costs of collecting and producing the foreign affiliates' data from the total cost incurred for collecting data often used for other purposes. Moreover, in certain Member States, data may be collected by two different institutions, i.e. the national central bank and the national statistical office, rendering reliable estimates even more complicated.

### Inward FATS

The largest part of the labour input and respondent burden required for the production of inward FATS statistics can be attributed to the resources required for the production of a large set of statistics related to Structural Business Statistics (Regulation (EC) No 295/2008 concerning structural business statistics). Looking at the summary of the estimates provided by Member States, it can be concluded that extra activities related to the implementation of Regulation (EC) No 716/2007 for inward FATS necessitated only a rather modest additional labour input.

### Outward FATS

Foreign Direct Investment (FDI) and outward FATS are closely related statistical domains as both measure elements of the internationalisation of businesses. This similarity in substance is also expressed in compilation practice and FATS data are often compiled with the help of the same FDI survey. Therefore, it is difficult to determine the additional costs attributed to the production of the outward FATS statistics.

Nevertheless, a survey on cost-effectiveness was undertaken in 2007 and results show that a large majority of Member States can produce outward FATS at low or medium cost.

For both inward and outward FATS, National Statistical Authorities confirmed that they were going to introduce some measures at national level in order to reduce the burden, in particular by using administrative data to a larger extent, by organising web data collections and by improving the existing electronic questionnaires.

## **6. PROGRESS AND IMPLEMENTATION OF PILOT STUDIES**

Pilot studies for inward and outward FATS are called for in Article 5 of Regulation (EC) No 716/2007 in order to assess the relevance and feasibility of collecting additional variables.

Paragraph 4 of this Article indicates that the pilot studies are the basis for any further decisions on implementing measures, including decisions on the scope of data compilation for inward and outward FATS. This reflects the importance attached to the pilot studies for the future design of FATS data compilation within the EU.

The first round of pilot studies was launched in 2006. The second round took place in 2007. Participating countries tested the feasibility of implementing additional variables and subsequently delivered the compiled data to Eurostat.

For inward FATS, the collection of data for M, N and O sections as well as for R&D variables for NACE Rev.1.1 sections G, H, I, K, M, N and O (and for the corresponding classification in the NACE Rev.2) seems feasible with relatively little effort on the part of either enterprises or National Statistical Authorities. If the feasibility is confirmed by all Member States and the user needs are reconfirmed, the inward FATS data collection will be extended to regularly cover these variables.

Looking at outward FATS, at least three of the pilot variables could be called feasible: *Personnel costs*, *Value added at factor costs* and *Gross investment in tangible goods*. A great majority of participating Member States concluded that these three variables could be obtained quite easily from the businesses, as they are directly, or almost directly, derivable from accounting systems. On the other hand, the collection of trade-related variables, which are important in the analysis of globalisation, seems to be less feasible, at least for the time being. They would be particularly costly and less easy to obtain from those enterprise groups which are important to FATS, i.e. the largest groups.

In conclusion, several pilot studies were implemented by participating Member States. Their results gave an insight into the scope for compiling additional variables in inward and outward FATS that were defined as non-mandatory in the FATS Regulation. The Commission has reservations about proposing that any of the piloted variables be made mandatory, as this seems to increase the burden for National Statistical Authorities and for respondents. Nevertheless, the Commission confirms the strong demand by users for this information.

## **7. AREAS FOR POTENTIAL IMPROVEMENTS AND AMENDMENTS**

For the near future, Eurostat plans to further improve the quality of the FATS data by developing and harmonising methodology with a view to:

- implementing a smooth transition of the NACE Rev. 2 classification for the outward FATS, which would lead to better international comparability,

- calculating EU aggregates from the 2009 reference year onwards for both inward and outward FATS data.

In the medium term, when compiling the FATS statistics, Member States could use the EuroGroups Register (EGR) as a common tool. The EGR is under development and will contain data on enterprise groups and their constituent units and characteristics. This makes it possible to align the country code of the UCI to which the enterprises belong and will thus enhance the quality of the FATS statistics.

Eurostat is also currently working on the Framework Regulation Integrating Business Statistics (FRIBS) to establish a common legal framework for the systematic collection, compilation, transmission and dissemination of European statistics related to the economic activity, structure and performance of the business sector. The FATS requirements will be reassessed in the context of FRIBS.